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SUBJECT: SCENESETTER FOR AMBASSADOR RICE'S VISIT TO IRAQ

Classified By: Ambassador Christopher R. Hill for reasons 1.4. (b) and (d).

¶1. (C) Ambassador Rice, your upcoming trip to Iraq comes at an important time in Iraq's political calendar. Iraqi political leaders are furiously at work negotiating potential alliances in advance of the January 2010 parliamentary elections. The maneuvering will become even more frenetic after the Council of Representatives passes a new election law. The electoral commission (IHEC) is also anxiously awaiting that law to determine how to proceed with organizing the January elections. We have been actively engaging with political leaders over the past few weeks to ensure this critical legislative task is addressed. Security remains a key preoccupation in Baghdad, particularly in the wake of the devastating August 19 bombings targeting the MFA and the Ministry of Finance. In addition to security, any future Iraqi government will have as top priorities consolidating Iraq's engagement with its neighbors -- while ending regional interference in Iraqi internal affairs -- and termination of Chapter VII sanctions. Your Iraqi interlocutors will likely seek your input on this issue, and especially on their request that the UN send an envoy.

#### BUILDING ELECTORAL COALITIONS

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¶2. (C) New electoral alliances are taking shape in anticipation of January's election, with the Shia bloc of parties split in two and the Sunni parties still negotiating among themselves. On August 24, most Shia parties that assembled the current government announced the Iraqi National Alliance (INA). On October 1, Maliki unveiled his rival State of Law Alliance (SLA) in the hope that running separately from his old allies would yield him more seats and a better opportunity to remain prime minister. Both alliances claim they are "cross-sectarian" and "national," but each has attracted only limited Sunni representation so far, as they consider their options.

¶3. (C) Sunni parties remain fractured. Two leaders of the formerly dominant Iraqi Islamic Party (IIP) have established their own parties. The Iraqi nationalist, anti-Kurdish, al-Hudba party that emerged in the January election has split. A number of new, smaller parties are negotiating with potential Sunni or Shia partners, including former Prime Minister Ayad Allawi. In the north, the dominant Kurdish alliance remains intact. The upstart Goran (Change) list, which gained its popularity by attacking corruption in the Kurdistan Regional Government and in Talabani's PUK, plans to run a competing list against the established parties but probably will fall in-line with them to defend Kurdish core interests in Baghdad.

#### HOLDING TIMELY ELECTIONS

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¶4. (C) Regardless of pre-election maneuvering, our first

political priority remains the holding of credible and legitimate national elections in January (as required by the Iraqi constitution). After weeks of speculation, Iraq's Council of Representatives (COR) performed two of three required readings of an election law October 4-6. The draft law under consideration is an amended version of the 2005 law. The COR has struggled mightily over two key issues: whether to adopt an open list system that allows voters to select individual candidates (rather than party lists) and how to handle the issue of contested voter registration lists in Kirkuk. At the same time, the October 5 interrogation of the Chairman of the Independent High Electoral Commission (IHEC) has left Iraq's key electoral institution paralyzed as it faces the possible removal of one or more members by a COR vote of no-confidence. I recommend that you emphasize the need for passage of an electoral law (or congratulate key officials if it is passed) and the holding of elections on schedule, in all appropriate meetings during your visit.

#### AUGUST 19 BOMBINGS

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15. (C) The August 19 bombings in Baghdad targeting the Foreign and Finance Ministries put Maliki on the defensive and persuaded key officials, including Maliki and FM Zebari, that a "momentum of interference" from neighboring states was building. GOI officials publicly accused Syria of harboring Iraqi Baathists who helped terrorists in Iraq to orchestrate the bombings. (Al-Qaida in Iraq belatedly claimed responsibility.) It was in this context that Maliki recalled Iraq's ambassador to Syria and sent a letter to UNSYG Ban

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requesting the appointment of a senior official to establish a tribunal to investigate foreign intervention in support of terrorist attacks inside of Iraq. Maliki has personally requested active U.S. support for UN involvement, and he and Zebari have expressed disappointment that, in their view, the USG has not pressed harder on this issue at the UN. That perception seems to have fed into a broader concern, at least with Zebari, that the USG may be disengaging from Iraq too rapidly, before Iraq is ready to stand on its own. You can expect to hear a lot about this issue throughout your visit.

#### CHAPTER VII

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16. (C) After security matters, Chapter VII is one of the most critical issues for the Iraqi leadership on all sides. Obviously Iraqis bear significant responsibility for addressing the matter of Chapter VII. Under Article 25 of the Security Agreement, the U.S. committed to use our "best efforts" to support Iraq in satisfying UNSC-mandated obligations. Helping the Iraqis exit from Chapter VII status will not be easy. GOI lack of capacity and political will, Kuwaiti fears, and our own bureaucracy's requirements are also inhibiting progress. Movement on some of the Kuwait-related issues, especially UNSCR 833, is likely to prove quite challenging, particularly during the election season. For example, while the MFA understands the need to re-affirm 833 in its entirety, as the precursor for reducing the five percent of oil revenues paid to Kuwait, the PM and his inner circle bridle in particular at the maritime boundary demarcation, resorting to nationalist sentiments in claiming it is unfair and economically stifling for Iraq's future development. Political forces in Iraq, that remain large and active, and who want to drive us out altogether, are citing the lack of progress on Chapter VII as a reason to abandon a relationship with the U.S. and possibly support a referendum on the Security Agreement. This issue will require significant attention in the next year, as we attempt to assist (and encourage) the Iraqis to take the difficult steps needed to move beyond Chapter VII.

17. (C) Maliki's August 2 meeting with KRG President Barzani and other Kurd leaders has led to agreements in principle to integrate two Peshmerga brigades into the Iraqi Army, which would be a major step in building Arab-Kurd security cooperation and reducing the risk of military confrontation. To date, Maliki has not moved forward with integration. Hosted by GEN Odierno, the Iraqi Interior and Defense ministers met face-to-face with their Kurdish counterparts on August 16, September 5 and October 17. The two sides have also agreed to establish a joint committee in the UN process to discuss the pending hydrocarbons and revenue-sharing laws, disputed internal boundaries (DIBs), and the Arab-Kurd standoff in the Ninewa Provincial Council. Much work remains, however, and this recent progress may not reflect a commitment to reaching lasting Arab-Kurd accommodation as much as it represents a tentative step towards a post-election political alliance that Maliki believes could help him retain the PM slot and which Barzani hopes will enhance his influence in Baghdad. Separately, Deputy Prime Minister Rafi al-Issawi, at the direction of PM Maliki, has undertaken a mediation effort in Ninewa, where the Sunni Arab and Kurdish sides have agreed to seven of nine proposed confidence building measures. They are working to finalize confidence building measures. They are working to finalize language regarding the final two; DPM Issawi hopes to convene the two sides in Baghdad in the near future to announce a final agreement. Collectively, both sides are also mulling the potential impact that the coming U.S. drawdown could have on their respective leverage. We plan to work closely with UNAMI to push forward the DIBs negotiations, while recognizing that continued movement on Arab-Kurd issues will have to await the seating of a new Iraqi government following the January elections.

STATUS OF KIRKUK  
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18. (C) Our initial effort to ramp up diplomatic engagement with the GOI and the Kurds on Kirkuk, in parallel with MNF-I's efforts to establish a cooperative U.S.-GOI-KRG security architecture in disputed areas, was complicated by adverse political reaction to the proposed joint security plan. The United States has never had a publicly stated policy on the final status of Kirkuk, other than to say we support the UNAMI process for a negotiated DIBs settlement that includes Kirkuk.

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19. (C) As Iraq enters into the volatile electoral season, the United States will need to take a more visible and muscular role to defuse Kirkuk as a potential security flashpoint and divisive campaign issue. UNAMI's new SRSG strongly agrees that the United States should adopt a more directive and hands-on approach. We submitted a detailed policy and related strategy recommendation that, consistent with UNAMI's views, will help steer Arab and Kurd negotiators toward an outcome on Kirkuk that is sustainable, consensus-based and contributes to Iraq's national unity. We are gauging whether and how hard to push our Kirkuk policy in advance of the upcoming election, but envision the core goals as being static. Rather than an up or down referendum on whether Kirkuk should be a part of the KRG, which Barzani steadfastly wants and which most others believe will lead to civil war, we believe the United States should advocate a negotiated interim "special status" arrangement making Kirkuk a distinct administrative territory for, say, 10 years, renewable by agreement of the KRG and GOI, with special guarantees and protections for all communities. The arrangement would include a power-sharing formula for the Kirkuk provincial council among Arabs, Kurds and Turkomen. We envision a

confirmatory referendum of the negotiated arrangement. This will be a very difficult message for the Kurds, and Barzani in particular, to hear, but it is important that senior USG interlocutors underscore it in their meetings with him. If we do not make clear now where we stand, the Kurds may harden a negotiating position based on a misreading of our policy. To help make our message more palatable, we should be prepared to give the Kurds continued assurances of U.S. support and re-double our efforts to facilitate an agreement on hydrocarbon legislation to resolve differences on the management of Iraq's oil and gas resources.

¶10. (C) Regarding the Mujahideen al-Khalq (MEK), the situation in Ashraf remains calm but fragile. Maliki has agreed to delay the relocation 60 days in order to allow the UN time to develop viable resettlement options for MEK members. The GOI plans to meet with MEK leadership on October 19 in Ashraf to secure their cooperation for the proposed relocation. UNAMI and USG reps will attend the meeting as observers. UNAMI has assumed a more active role and plans to assign human rights officers near Ashraf to monitor and report on developments. According to UNAMI, the MEK leadership is willing to resettle in Europe but remain opposed to relocation within Iraq. UNAMI plans to convene a meeting of EU missions to urge greater responsiveness and cooperation on resettlement for the 3400 Ashraf residents. The 36 MEK detainees originally arrested for assaulting Iraqi police have been returned to Ashraf after having been acquitted by an Iraqi judge and found eligible for deportation.

#### TRANSFORMING IRAQ THROUGH OIL

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¶11. (SBU) Oil is the lifeblood of the Iraqi economy, providing about 65 percent of GDP and about 90 percent of annual revenues to the government. For July 2009, oil production was 2.5 million barrels per day (bpd). If Iraq is to modernize and develop, it must exploit its vast oil reserves, thought to be the third largest in the world. Iraq's first oil licensing round - held on June 30 - was a mixed success. The GOI awarded only one field. While the June 30 bid round set new GOI standards for transparency, at QJune 30 bid round set new GOI standards for transparency, at the same time, the GOI made many mistakes. The GOI learned from its first Bid Round mistakes and, although still demanding low fees, softened some contractual terms, increasing overall returns to a point that is acceptable to IOCs. As a result, in October, several consortia (including U.S. firms ExxonMobil, ConocoPhillips, and Occidental) returned to the table with revised bids.

#### REFUGEES AND INTERNALLY DISPLACED PERSONS (IDPs)

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¶12. (C) Another key challenge in Iraq's immediate future is finding solutions for millions of displaced Iraqis. Best estimates point to approximately one million refugees in neighboring countries and 1.5 million displaced internally since 2006. Combined with the more than one million displaced during the Saddam era, approximately one in ten Iraqis has been forced to flee their homes. This large level of displacement is not only a significant humanitarian concern, but it poses obstacle to national reconciliation, Iraq's stability and its future economic development. Approximately 143,000 Iraqis have returned to their homes this year, with security gains cited by most returnees as the most significant factor in their move.

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13 (C) Post, USAID, and UN agencies have placed a high priority on assisting this population. After a slow start, the U.S. has commenced a robust resettlement program for vulnerable Iraqis, especially those who worked for the United States. Over 33,000 Iraqis have now been resettled in the

U.S., over 18,000 of which came in 2009.

¶14. (C) Our assistance strategy seeks to leverage more effective performance from the GOI to support the most vulnerable and create conditions that support voluntary, safe and sustainable returns. We support local integration where returns will not be possible. Given the magnitude of the displacement, it is essential to win GOI buy-in, promote GOI leadership, and encourage GOI coordination of its own efforts. In FY 2009, we provided 386.7 million dollars in funding for Iraqi refugees and IDPs, primarily through agencies such as UNHCR, ICRC, USAID's Office of Foreign Disaster Assistance (OFDA), and IOM. Both OFDA and USAID fund a range of NGOs in and outside Iraq.

¶15. (C) The GOI has taken only modest steps to support the return of displaced Iraqis, though recent efforts have been positive, including the appointment of a GOI coordinator on refugee and IDP issues in the PM's office, increased financial obligations, orders for government bodies to coordinate, and granting IDPs access to their properties. Still, implementation of the orders has lagged and coordination among competing government bodies has frustrated even well-intentioned efforts.

#### RECONCILIATION EFFORTS

¶16. (C) Initiatives focused on cross-sectarian/ethnic reconciliation are a significant component of the 225 million USD in democracy-building programs DRL funds in Iraq. We recommend you visit one of these reconciliation-focused programs if your schedule in Iraq will permit. Our reconciliation programs generally build networks of grass roots community leaders and provide them mediation training, with the goal that these networks can identify "hot-button" issues in their communities and mediate resolutions or head off tensions. Among the DRL-funded U.S. organizations working with Iraqi NGOs on reconciliation projects are the U.S. Institute of Peace (USIP), the International Institute for Law and Human Rights (IILHR), and Mercy Corps. USIP's project in Diyala, for example, trains community leaders in basic negotiation skills, then provides micro grants of up to 2500 USD for the community leaders to use in mediating an issue, for example to hire a meeting venue or print copies of a proposal for participants.

¶17. (C) More recently, DRL funding for reconciliation has focused on projects in Kirkuk and Kurdistan, given the rising political tensions about the future of these areas. USIP was just awarded FY'09 funding to establish a program in Kirkuk that will bring together leaders of the city's ethnic communities for dialogue with local security forces. We are also in discussions with USIP about the possibility of it developing a group of cross-community "wise people" who could identify issues that are triggering tensions between the communities and then advise the High-Level Task Force of possible ways to resolve them.

#### CONCLUSION

¶18. (C) We face many challenges in achieving the President's vision for Iraq as a stable, sovereign and self-reliant nation. Internal political considerations related to the upcoming national elections will further complicate those challenges. But there is a way ahead and your visit will help us to exploit opportunities for progress on key issues. My team and I look forward to your arrival.

HILL